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SUBJECT: RUSSIAN RAILWAYS PRESIDENT YAKUNIN: ANALYZING THE
REAL DEPTH OF THE FINANCIAL CRISIS

Classified By: Ambassador John R. Beyrle for Reasons 1.4 (b) and (d).

Summary

1. (C) During an October 28 meeting with the Ambassador, Russian Railways (RZD) President Vladimir Yakunin held forth on a range of topics, with particular enthusiasm for elaborate economic theories and his assertion that the world had yet to understand the full extent of the financial crisis. The Ambassador underscored the importance of the U.S. and Russia working together despite their differences to tackle the global financial crisis. Yakunin--a long-time Putin confidant floated by some pundits as a potential successor to then-President Putin--discussed his theory that the crisis was caused by the self-enrichment of global financial elites and his concern that a series of budget crises would be the next phase of the crisis. The Ambassador praised the GOR's new frankness on the scale of the financial crisis, which he noted was in line with suggestions Yakunin had made in a recent interview. Yakunin suggested that solving the crisis required support for demand (perhaps through state sponsorship for large-scale infrastructure projects) in addition to support for liquidity. Yakunin was troubled by a "Cold War" mentality that impeded U.S.-Russian relations, and by a U.S. visa process he found "offensive." End Summary.

The Causes of the Global Financial Crisis

2. (C) The Ambassador acknowledged that this was a difficult moment in the U.S.-Russian relationship, but emphasized that both countries could not let their differences stand in the way of their duty to work together to address the global financial crisis. Yakunin suggested it was only a "partial truth" to say the crisis had developed in the U.S. He laid the blame at the feet of the "global financial elites." That the crisis had begun in the U.S. was simply because the U.S. was the largest market for these elites' projects. He alleged that the large banking families were growing richer from the crisis, and that the world was now paying for its "blind faith" in the "neoliberal theory and the Washington consensus." Yakunin said that the "socialism" and "capitalism" he and the Ambassador had studied during the Cold War had never actually existed -- instead, there was a single global economic system like a "living organism" that was difficult to study. One group willing to undertake these studies (luckily enough) was the World Public Forum Dialogue of Civilizations, headed by Yakunin. The group looked at the "alternative economics" advanced by Lyndon LaRouche and the American sociologist Immanuel Wallerstein.

3. (C) Yakunin expressed particular concern that the crisis had not yet peaked: derivatives had created a global bubble like that in Russia during Perestroika. The next and hardest

stage would be a budget crisis in March or April as government revenues declined and social spending obligations rose. "Who will decide what to do?" he asked rhetorically, noting that this was a global problem but that the Europeans could not even agree among themselves. He suggested that the growing closeness between Russia and Europe could be helpful if it were seen as productive rather than dangerous.

Acknowledging the Financial Crisis in Russia

¶4. (C) The Ambassador said that recent developments in Russia made him slightly more optimistic about Russia's own willingness to engage in the global dialogue necessary to address the crisis. Many oligarchs and government officials had expressed concern that the crisis would push Russia in a more protectionist, state-controlled direction; a lack of openness on the scale of the crisis in Russia fueled that concern. The Ambassador noted that recent statements by GOR officials suggested that Russia did not plan to move down an isolationist path. He observed that the GOR had undertaken many of the steps Yakunin had proposed in his Kommersant interview from 2 October, such as a new frankness about economic conditions in Russia and a more tailored approach to addressing bank liquidity.

¶5. (C) Yakunin was visibly pleased at the mention of his interview. He said he knew that the leaders in Russia did not like to hear bad news from below, but that his friends and subordinates had been concerned about the state of affairs. These were hard truths, but the government needed to acknowledge them; "the people are smarter than the government." Despite these steps in the right direction, Yakunin believed there was still a "lack of understanding

about the real depth of the crisis," particularly in Russia, but also in Europe and the U.S. Most important, according to Yakunin, was for governments to understand the need to support demand, not merely liquidity. Yakunin noted that Russia's state funds had been useful in addressing liquidity. It would be "sad," however, if the government did not also take this chance to fund infrastructure, which could stimulate new sectors of the economy. Had there been more infrastructure in the first place, he suggested, the economic picture would be different now--much more integrated.

Combating the "Cold War Mentality"

¶6. (C) Yakunin bemoaned the Cold War mentality that he felt posed the greatest obstacle to greater integration between Russia and the West. He cited his plans to build a transit corridor linking Europe to Asia, observing that capturing 1 percent of the trade between those regions would amount to 6 billion dollars. (Comment: RZD has public plans to work with German railroad company Deutsche Bahn to develop a container bridge to the Pacific.) Yakunin said that some in the U.S. opposed this corridor because Russia could use it to transport tanks to Europe, an example of a mentality shared by many in the U.S., France, and Russia that he found absurd. The U.S., according to Yakunin, had the psychology of people who live on an island, and he lamented a commercialism that meant "Americans won't go to the toilet without the television telling them which brand of toilet paper to use."

¶7. (C) The Ambassador acknowledged that a Cold War mentality did persist for many, but said the burden was on those who knew better to win the argument by speaking out in public and in private. Americans' deep-rooted values spoke to a country with more depth than commercialism. The Ambassador noted that his conversation with the Patriarch of the Russian Orthodox Church (ROC) had underscored the importance of faith in Russia, and that this shared sense of faith could help bring the U.S. and Russia closer together. Yakunin agreed, and noted his plans to visit the U.S. in the coming months as part of the ROC's outreach to Russian Orthodox believers abroad. He also invited the Ambassador to a ceremony in December at the Kremlin organized by the ROC-affiliated Fund of Andrey the First-Called.

Visa Issues

18. (C) Yakunin reiterated his concerns about his U.S. visa throughout the meeting, suggesting it was "offensive" for people who are as well known as he is to have to go through "such a process." (Comment: Yakunin applied for a visa on 2 October, 12 days prior to his scheduled departure for a conference in the U.S. He was authorized a single-entry visa on 14 October, which was issued 15 October.) The Ambassador noted that he had started a process to review the list of people in a similar position to Yakunin, but that it would take a while for the process to be completed.

Comment

19. (C) The meeting, held in RZD's grandiose conference room, was clearly calculated to impress. Yakunin made a grand entrance complete with a photographer to capture his handshake with the Ambassador; a framed copy of the photograph was presented in a gold-embossed folder at the meeting's conclusion. Yakunin sat flanked by an array of silent vice-presidents with a scattering of lesser subordinates on the room's periphery. These formalities notwithstanding, Yakunin emphasized his desire to dispense with formalities and have a "frank" conversation, which he conducted both in Russian and in excellent English. Yakunin is an influential political insider, and many of his messages are useful for the GOR to hear. His interest in increasing Russia's integration with the rest of the world and his willingness to chastise the GOR for avoiding frank discussion of economic conditions in Russia are positive, even if some of his more conspiratorial economic theories verge on the extreme.

BEYRLE